

Finance

PROGRAM

BRIEF1

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Technical Assistance Brief



U.S. Department
of Transportation

**Federal Transit
Administration**

Office of Technical
Assistance and Safety

Transit's Finance Challenge

Mass transportation in the United States will be faced with extensive financial demands in the 1990s. It is estimated that the replacement and rehabilitation of existing transit assets will cost \$46 billion over the next 10 years. Demand for this level of investment will be made more difficult by over \$20 billion in demands for new investments as well as ever increasing operating and maintenance subsidies. In addition, effective responses to the Clean Air Act and Americans with Disabilities Act will require new and innovative approaches in transit finance.

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 provides the national policy framework for addressing the transit finance challenges of the 1990s. ISTEA strengthens the local decision making process, encourages the use of sound financial principles, provides for flexible use of Federal highway and transit funding, promotes the use of innovative financing strategies, and advances opportunities for greater private sector involvement.

The Capital Assistance Division of the Office of Technical Assistance and Safety conducts research, demonstra-

tions, training, and evaluations in support of ISTEA. The Finance Program is organized into three areas: Financing Techniques, Financial Management, and Public/Private Partnerships.

The Financing Techniques element promotes innovative financing mechanisms that leverage Federal assistance, reduce the cost of capital and involve market based revenue strategies. Some examples are certificates of participation, capital leasing, credit enhancements, advance construction financing, and pooled financing.

The Financial Management element focuses on the on-going financial operation of transit agencies including asset management, revenue forecasting, and financial capacity analysis.

The Public/Private Partnerships element embraces the joint development of transit and real estate projects, and joint (public and private sector) financing as an effort to equitably allocate and manage project risk, capture some of the monetary value of public investments, and provide an environment for private financing.

During 1993, the Finance Program will emphasize the following agenda:

- Documentation of Certificates of Participation (COP's) and cross-

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Transit's Finance Challenge

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border (off-shore) leasing transactions. The benefits of these financing methods will be compared with conventional methods of vehicle acquisition;

- Studies of opportunities for pooled financing to ensure greater predictability in the demand for transit vehicles and facilities;
- A review of the state-of-the-art practices in transit agency cash management systems and procedures;
- A review of internal auditing systems to determine the adequacy of internal controls for managing Federal grants;
- A study of risk management practices in the areas of construction project management and systems operation and maintenance, and recommendations for ways to improve operating and capital program risk management;
- A study by the Bay Area Rapid Transit (BART) District to assess establishment of a joint development affiliate for the BART system;

- Assessments of financial control systems for capital projects including consideration of job hosting, inventory control, receivables, payables, payroll subcontractor control, and cash flow management systems and procedures;
- Evaluations of recently implemented joint development projects, and recommended technical guidelines for such undertakings; and,
- In cooperation with the National Transit Institute at Rutgers University, financing workshops for three different audiences, including areas with small and medium sized transit services, areas that are planning and developing new fixed guideway transit systems or extending existing fixed guideway systems, and Metropolitan Planning Organizations that now have increased roles in financial planning decisions as a consequence of ISTEA

Questions about FTA's Finance Program can be directed to:

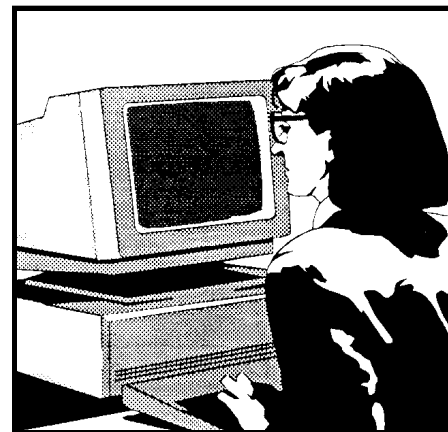
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Transit Financial Planning Software Available

The National Association of regional Councils (NARC) has released software to aid MPOs in their effort to meet the requirements and maximize the benefits of the Intermodal Surface Transportation and Efficiency Act (ISTEA) of 1991.

The software package and an accompanying tutorial to guide users will assist planners in some of the technical aspects of financial capacity analysis.

Given a growing demand for updated information about technical aspects of financial planning and capacity analysis, FTA and NARC will pursue further research on these issues. To request the financial planning software, contact NARC's Director of Intergovernmental Affairs, Peggy Martin, at (202) 457-0710.



■ Public Finance Guide for Transit

Since the 1980 's, state and local governments have turned to greater use of the tax-exempt bond market, particularly as Federal capital infrastructure grants have been reduced. To assist public agencies and others interested in public finance for transit system investments, FTA's Capital Development Division has just released *"Introduction to Public Finance and Public Transit,"* a guidebook describing the public finance process and a range of innovative financing techniques.

The 192 page guide offers a discussion of recent trends in public finance in general and transit in particular, the mechanisms of

both debt and lease financing, and FTA's role in assisting with and evaluating finance plans.

The guide begins with an overview of public finance markets today, the economics of the municipal market, how the market is regulated, who buys and sells tax-exempt debt, and a general historical market perspective.

Chapters on the mechanisms of debt financing and lease financing follow. The debt financing section outlines the tax-exempt financing process. Examples are provided and the chapter explains ideas central to successful financing. These include the key features of most types of tax exempt

debt, the ratings process and its importance, as well as the investment of bond proceeds and local cash.

The lease financing chapter outlines the mechanisms of lease financing, its usefulness in procuring transit equipment and facilities, and FTA supported financing. An historical overview of lease financing as well as the pros and cons of financing versus pay-as-you-go approaches are discussed.

Another useful chapter describes cost reduction techniques for transit financing, such as international vendor financing, cross-border leasing, turnkey procurement, and joint development.

■ Cross-Border Leasing

Cross-border leasing, an important tool for using the energy of private sector investments to make transit resources go farther, is available to transit authorities for assets purchased with both local and federal funding.

For the uninitiated, cross-border leasing is a paper transaction (no equipment is moved) that results in a not savings for a transit authority that is purchasing assets (for example, new buses or rail cars). In a crossborder Lease transaction, a foreign investor purchases the transit assets from a transit agency and leases them back to the agency. Cross-border leasing is similar to safe harbor

Leasing which was permitted in the U.S. prior to the Tax Reform Act of 1986.

Foreign investors realize a tax savings in their country due to the depreciation they claim on the transit assets they would own. A portion of the savings is passed along to the transit agency in the lower Leasing costs.

Upon having paid up the Leasing costs, the transit agency has the option of once again taking ownership of the assets. Even after fees are paid by the transit agency for financial and legal advice, the transactions translate into a savings of approximately 5 percent of the costs of the assets.

For example, savings on a typical rail car costing \$1.5 million would amount to \$75,000. In order to accrue these savings, the minimum level of investment is about \$50 million.

In the past, some cross-border leasing was undertaken using local funds. Since 1990, Federal policy has allowed assets purchased with Federal funds to be included in crossborder transactions.

For additional information, see the FTA "Cross-Border Leasing Guidelines"(UMTA Circular 7020.1).

Recent Publications

- ☐ "Finance Program Information Folder This publication offers an overview of the services provided by FTA's Capital Development Division.
- ☐ Financial Planning Guide for Transit" This guide presents the details of the overall financial planning process and is intended to assist public agencies and interested private parties in the preparation of comprehensive and realistic financial plans.
- ☐ "Introduction to Public Finance and Public Transit" Described in article on page 3.
- ☐ "North Bethesda Transitway Study" This study focuses on private sector financing of transit impro
- ☐ "The Prospects for Private Rail Transit: Lessons from Three Case Studies" This is the final report of a study examining the experience of the most promising private rail transit proposals advanced in the 1980s to see why private rail has proven so difficult to develop.

Finance Calendar of Events

CONFERENCES

APTS Management Conference (Portland, OR)

Finance Sessions:

- Introduction to Public Finance and Public Transit Workshop.....March 29, 1993
- Innovative Financing TechniquesMarch 30, 1993

For conference registration information contact Edward Gregerman of APTA at (202) 898 -4085

WORKSHOPS

Financing for Transit AgenciesTo be determined
Summer 1993
Kansas City, KS

Financial Planning and Analysis for Major Capital Investments..... To be determined
Summer 1993
Chicago IL

For workshop registration information contact Effie Stallsmith, FTA at (202) 366-5653

Order Form

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Please check the boxes next to the publications you would like to order.

Fill out this form and mail or fax request to:

Effie Stallsmith, TTS-11, Office of Mobility Enhancement, Federal Transit Administration, 400 7th Street SW, Washington, DC 20590. Fax: (202)366-3765 Phone: (202)366-5653

- ☐ Finance Program Information Folder
- ☐ Financial Planning Guide for Transit
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